

**REPORT OF THE AUDIT OF THE  
MORGAN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2010**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MORGAN COUNTY FISCAL COURT**

**June 30, 2010**

The Auditor of Public Accounts has completed the audit of the Morgan County Fiscal Court for fiscal year ended June 30, 2010. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Morgan County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$15,052,218 as of June 30, 2010. The fiscal court had unrestricted net assets of \$13,506,296 in its governmental activities as of June 30, 2010, with total net assets in its governmental activities of \$15,052,218. The fiscal court had total debt principal as of June 30, 2010 of \$20,056,650, with \$1,070,875 due within the next year.

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Tim Conley, Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Morgan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Morgan County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Kentucky, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Tim Conley, Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morgan County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2011 on our consideration of Morgan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

May 2, 2011



MORGAN COUNTY OFFICIALS

For The Year Ended June 30, 2010

**Fiscal Court Members:**

Tim Conley	County Judge/Executive
Jon Brown	Magistrate
Denzil Potter	Magistrate
Frankie Spencer	Magistrate
Anthony Lykins	Magistrate
Stanley Riggsby	Magistrate

**Other Elected Officials:**

D. Joleen Fredrick	County Attorney
Jimmy D. Easterling	Jailer
Randy Williams	County Clerk
Donna Pelfrey	Circuit Court Clerk
Mickey Whitt	Sheriff
Darby Franklin	Property Valuation Administrator
Raymond Vancleave	Coroner

**Appointed Personnel:**

Tommy Phipps	County Treasurer
Lynn McClurg	Road Supervisor

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**MORGAN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2010**



**MORGAN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2010**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 13,506,296
Asset Held For Resale	123,851
Receivable Due From Ambulance Service	61,176
Receivable Due From Gateway Community Services	4,363
Total Current Assets	<u>13,695,686</u>
Noncurrent Assets:	
Receivable Due From Ambulance Service	103,898
Receivable Due From Gateway Community Services	2,264
Capital Assets - Net of Accumulated Depreciation:	
Land and Land Improvements	2,272,164
Construction in Progress	1,860,575
Land Improvements	1,614,752
Buildings	6,713,341
Furnishings	20,277
Vehicles and Equipment	773,480
Infrastructure	8,052,431
Total Noncurrent Assets	<u>21,413,182</u>
Total Assets	<u>35,108,868</u>
 <b>LIABILITIES</b>	
Current Liabilities:	
Revenue Bond Payable	600,000
Financing Obligations Payable	470,875
Total Current Liabilities	<u>1,070,875</u>
Noncurrent Liabilities:	
Revenue Bond Payable	14,630,000
Financing Obligations Payable	4,355,775
Total Noncurrent Liabilities	<u>18,985,775</u>
Total Liabilities	<u>20,056,650</u>
 <b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,545,922
Unrestricted	13,506,296
Total Net Assets	<u><u>\$ 15,052,218</u></u>

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2010**

**MORGAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

		Program Revenues Received			
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	\$ 228,342	\$ 94,260	\$ 206,825	\$ 348,647	
Protection to Persons and Property	715,761	53,001	107,766	150,233	
General Health and Sanitation	283,823				
Social Services	4,500			2,500	
Recreation and Culture	139,389	9,855		188,989	
Roads	286,492		1,308,419	549,312	
Interest on Long-Term Debt	276,474				
Capital Projects	2,756,421			13,500	
Total Governmental Activities	\$ 4,691,202	\$ 157,116	\$ 1,623,010	\$ 1,253,181	

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

Excess Fees

Accrued Interest Received

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**MORGAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2010**  
**(Continued)**

<b>Net (Expenses)</b> <b>Revenues and</b> <b>Changes in Net Assets</b> <b>Primary Government</b>	
<b>Governmental</b> <b>Activities</b>	
\$	421,390
	(404,761)
	(283,823)
	(2,000)
	59,455
	1,571,239
	(276,474)
	(2,742,921)
	(1,657,895)
	116,378
	9,714
	51,696
	391,072
	635,595
	121,310
	20,304
	163,235
	1,509,304
	(148,591)
	15,200,809
\$	15,052,218

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2010**

**MORGAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2010**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Special Projects Fund</b>	<b>Public Properties Corporation Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 92,536	\$ 211,660	\$ 11,467	\$ 55,288	\$ 13,135,340
Total Assets	<u>92,536</u>	<u>211,660</u>	<u>11,467</u>	<u>55,288</u>	<u>13,135,340</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	30,075	62,094	2,403	270	
Unreserved:					
General Fund	62,461				
Special Revenue Funds		149,566	9,064	55,018	
Debt Service Funds					13,135,340
Total Fund Balances	<u>\$ 92,536</u>	<u>\$ 211,660</u>	<u>\$ 11,467</u>	<u>\$ 55,288</u>	<u>\$ 13,135,340</u>

The accompanying notes are an integral part of the financial statements.

**MORGAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2010**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 5	\$ 13,506,296
5	13,506,296

	94,842
	62,461
5	213,653
	13,135,340
\$ 5	\$ 13,506,296

**Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:**

Total Fund Balances	\$ 13,506,296
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	30,077,493
Accumulated Depreciation	(8,770,473)
Asset Held for Resale	123,851
Notes Receivable Due For Financing Obligations	171,701
Long-Term Debt Is Not Due and Payable In The Current Period and, Therefore, Is Not Reported In The Funds.	
Revenue Bond	(15,230,000)
Financing Obligations	(4,826,650)
Net Assets Of Governmental Activities	<u>\$ 15,052,218</u>

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

**MORGAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Special Projects Fund</b>	<b>Public Properties Corporation Fund</b>
<b>REVENUES</b>					
Taxes	\$ 1,201,447	\$	\$	\$	\$
In Lieu Tax Payments	20,138	66,885			
Excess Fees	121,310				
Licenses and Permits	2,577				
Intergovernmental	357,696	1,437,889	84,680	718,040	
Charges for Services	9,855		50,035		
Miscellaneous	139,993	16,547	6,353	16,393	
Interest	2,484	13,483	562	3,740	21,092
Total Revenues	<u>1,855,500</u>	<u>1,534,804</u>	<u>141,630</u>	<u>738,173</u>	<u>21,092</u>
<b>EXPENDITURES</b>					
General Government	744,355			23,893	
Protection to Persons and Property	119,696		487,049	150,460	
General Health and Sanitation	135,695			53,599	
Social Services	4,500				
Recreation and Culture	18,429			76,146	
Roads		614,523		226,453	
Debt Service	244,225	366,803			240,715
Capital Projects	10,003	832,116		294,442	1,619,860
Administration	363,807	244,373	30,557	9,855	
Total Expenditures	<u>1,640,710</u>	<u>2,057,815</u>	<u>517,606</u>	<u>834,848</u>	<u>1,860,575</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>214,790</u>	<u>(523,011)</u>	<u>(375,976)</u>	<u>(96,675)</u>	<u>(1,839,483)</u>
<b>Other Financing Sources (Uses)</b>					
Financing Obligation Proceeds		475,000		36,000	
Bond Proceeds					15,230,000
Discount On Bond Issuance Proceeds					(255,177)
Transfers From Other Funds		60,552	374,985		
Transfers To Other Funds	(166,000)				
Total Financing Sources (Uses)	<u>(166,000)</u>	<u>535,552</u>	<u>374,985</u>	<u>36,000</u>	<u>14,974,823</u>
Net Change in Fund Balances	48,790	12,541	(991)	(60,675)	13,135,340
Fund Balances - Beginning (Restated)	43,746	199,119	12,458	115,963	
Fund Balances - Ending	<u>\$ 92,536</u>	<u>\$ 211,660</u>	<u>\$ 11,467</u>	<u>\$ 55,288</u>	<u>\$ 13,135,340</u>

The accompanying notes are an integral part of the financial statements.



**MORGAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2010**  
**(Continued)**

<b>Non- Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 2,930	\$ 1,204,377
	87,023
	121,310
	2,577
269,537	2,867,842
	59,890
	179,286
37	41,398
272,504	4,563,703
	768,248
3,008	760,213
	189,294
	4,500
	94,575
	840,976
	851,743
	2,756,421
	648,592
3,008	6,914,562
269,496	(2,350,859)
	511,000
	15,230,000
	(255,177)
	435,537
(269,537)	(435,537)
(269,537)	15,485,823
(41)	13,134,964
46	371,332
\$ 5	\$ 13,506,296

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**



**MORGAN COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ 13,134,964

Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	2,993,968
Depreciation Expense	(881,439)
Disposal of Asset	(35,000)

Notes Receivable Principal Received is Recorded in the Funds as a Revenue, However in the Governemnt-Wide Fianancial Statements it Results in an Increase in Cash and Decrease in Notes Receivable Which has no Effect on Net Assets

Change in Notes Receivable	(19,638)
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The Issuance Of Long-Term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds While Financing Obligation And Bond Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions Have No Effect On Net Assets.

Revenue Bond Proceeds	(15,230,000)
Financing Obligation Proceeds	(511,000)
Financing Obligations Principal Payments	399,554

Changes in Net Assets of Governmental Activities	\$ (148,591)
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The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Morgan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Unit**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Morgan County Public Properties Corporation**

The directors of the Morgan County Public Properties Corporation (PPC) are the duly elected County Judge/Executive and the other duly elected members of the Fiscal Court. The term of each director of the Corporation coincides with the director's term of office as a member of the Fiscal Court. Consequently, the governing board of the Corporation is entirely composed of Fiscal Court members and the Fiscal Court has the ability to impose its will on the governing board. In addition, the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

**MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Unit (Continued)

The Morgan County Fiscal Court must approve the issuance of bonded debt for the Public Properties Corporation; therefore, the Morgan County Public Properties Corporation is fiscally dependent

**C. Morgan County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Morgan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Morgan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The primary government reports governmental activities using the economic resources measurement focus and modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid with the exception of depreciation expense on the statement of activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the county. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.



**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30<sup>th</sup>, following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

**Governmental Funds**

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences and donated assets are not reflected in the financial statements.

The County reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**Governmental Funds**

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Special Projects Fund - The purpose of this fund is to account for various state and federal grant receipts and expenditures related to various projects.

Morgan County Public Properties Corporation Fund - The Morgan County Public Properties Corporation accounts for the activities of the Public Properties Corporation (PPC), a blended component unit of the County. The PPC issues debt for the construction of capital projects such as the Judicial Center. The PPC entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky, in which AOC wishes to use and sublease all or a portion of certain facilities owned by the County. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

**MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

The government also has the following non-major funds: Local Government Economic Assistance (LGEA) Fund, and the Forestry Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forestry Fund, and the Special Projects Fund are presented as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Debt Service Fund:**

The Public Properties Corporation Fund is presented as a debt service fund. A debt service fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The County is only reporting infrastructure put in place on or after July 1, 2003.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	5-7
Infrastructure	20,000	2-40

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Jointly Governed Organization**

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating government. The jointly governed organization can act independently of each of the participating governments. The Menifee, Morgan, and Rowan Counties Industrial Park (MMRC) meets the criteria noted above and is an organization jointly governed by the Kentucky counties previously mentioned.

**Note 2. Deposits**

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institutions failure, the County may not recover its deposits. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,272,164	\$	\$	\$ 2,272,164
Construction in Progress	35,000	1,860,575	(35,000)	1,860,575
Total Capital Assets Not Being Depreciated	2,307,164	1,860,575	(35,000)	4,132,739
Capital Assets, Being Depreciated:				
Land Improvements	2,157,555	7,500		2,165,055
Buildings	9,559,008			9,559,008
Furnishings	37,030			37,030
Vehicles and Equipment	1,487,282	267,631		1,754,913
Infrastructure	11,570,486	858,262		12,428,748
Total Capital Assets Being Depreciated	24,811,361	1,133,393		25,944,754
Less Accumulated Depreciation For:				
Land Improvements	(496,364)	(53,939)		(550,303)
Buildings	(2,621,891)	(223,776)		(2,845,667)
Furnishings	(13,379)	(3,374)		(16,753)
Vehicles and Equipment	(833,142)	(148,291)		(981,433)
Infrastructure	(3,924,258)	(452,059)		(4,376,317)
Total Accumulated Depreciation	(7,889,034)	(881,439)		(8,770,473)
Total Capital Assets, Being Depreciated, Net	16,922,327	251,954		17,174,281
Governmental Activities Capital Assets, Net	\$ 19,229,491	\$ 2,112,529	\$ (35,000)	\$ 21,307,020

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 174,037
Protection to Persons and Property	37,828
General Health and Sanitation	94,529
Recreation and Culture	44,814
Roads, Including Depreciation of General Infrastructure Assets	<u>530,231</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 881,439</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 4. Long-Term Debt**

**A. Kentucky Association of Counties – Road Improvements**

On June 27, 2000, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$2,500,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 240 months to be paid in full November 20, 2019 with an interest rate of 3.963%. The principal balance of the agreement a \$1,485,560 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 120,361	\$ 59,709
2012	127,940	55,699
2013	135,996	50,144
2014	144,560	44,272
2015-2019	871,360	119,469
2020	85,343	1,528
Totals	<u>\$ 1,485,560</u>	<u>\$ 330,821</u>

**B. Kentucky Association of Counties – Road Improvements**

On December 20, 2001, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$1,500,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 240 months to be paid in full December 20, 2021 with an interest rate of 3.88%. The principal balance of the agreement was \$1,013,873 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 62,641	\$ 40,523
2012	66,596	37,993
2013	70,799	36,706
2014	75,268	32,237
2015	80,019	29,091
2016-2020	482,548	176,001
2021-2022	176,002	6,756
Totals	<u>\$ 1,013,873</u>	<u>\$ 359,307</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 4. Long-Term Debt (Continued)**

**C. Kentucky Association of Counties – Library**

On April 19, 2002, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$2,260,000 for the building of a new library. The agreement requires variable monthly payments for 240 months to be paid in full January 20, 2021 with an interest rate of 4.64% plus administrative fees. The principal balance of the agreement was \$1,476,858 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 100,328	\$ 80,067
2012	105,970	74,628
2013	116,906	68,883
2014	118,476	62,545
2015	125,135	56,122
2016-2020	738,369	170,904
2021	171,674	9,307
Totals	<u>\$ 1,476,858</u>	<u>\$ 522,456</u>

**D. Kentucky Association of Counties – Road Equipment**

On April 28, 2003, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$440,000 for the purchase of road equipment. The agreement requires variable monthly payments for 60 months to be paid in full May 20, 2011 with an interest rate of 4.743% plus administrative fees. The principal balance of the agreement was \$62,000 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 62,000	\$ 1,436
Totals	<u>\$ 62,000</u>	<u>\$ 1,436</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 4. Long-Term Debt (Continued)**

**E. Kentucky Association of Counties – Mini Module Ambulance**

On November 14, 2006, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$50,000 for the Ambulance Service. The agreement requires variable monthly payments for 48 months to be paid in full November 20, 2010 with an interest rate of 4.743% plus administrative fees. The principal balance of the agreement was \$7,000 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 7,000	\$ 176
Totals	<u>\$ 7,000</u>	<u>\$ 176</u>

**F. Kentucky Association of Counties – Ambulance**

On January 28, 2008, the Morgan County Fiscal court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$83,980 for the Ambulance Service. The agreement requires variable monthly payments for 48 months to be paid in full February 20, 2012 with an interest rate of 4.103%. The principal balance of the agreement was \$36,643 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 21,657	\$ 1,059
2012	14,986	225
Totals	<u>\$ 36,643</u>	<u>\$ 1,284</u>

**G. Kentucky Association of Counties – Truck**

On June 23, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$11,288 for a GMC Yukon. The agreement requires variable monthly payments for 36 months to be paid in full June 20, 2011 with an interest rate of 7.047%. The principal balance of the agreement was \$3,922 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 3,922	\$ 291
Totals	<u>\$ 3,922</u>	<u>\$ 291</u>



**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 4. Long-Term Debt (Continued)**

**H. Kentucky Association of Counties – Backhoe/Loader**

On September 29, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$47,607 for a backhoe/loader. The agreement requires variable monthly payments for 63 months to be paid in full January 20, 2014 with an interest rate of 4.563%. The principal balance of the agreement was \$33,607 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 8,000	\$ 1,454
2012	8,000	1,127
2013	8,000	799
2014	9,607	356
Totals	<u>\$ 33,607</u>	<u>\$ 3,736</u>

**I. Kentucky Association of Counties – Vehicle**

On December 1, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$20,141 for a vehicle. The agreement requires variable monthly payments for 36 months to be paid in full November 20, 2011 with an interest rate of 5.231%. The principal balance of the agreement was \$6,141 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 4,000	\$ 363
2012	2,141	123
Totals	<u>\$ 6,141</u>	<u>\$ 486</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 4. Long-Term Debt (Continued)**

**J. Kentucky Association of Counties – Mack Truck**

On December 22, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$123,851 for a Mack truck. The agreement requires variable monthly payments for 60 months to be paid in full December 20, 2013 with an interest rate of 3.899%. The principal balance of the agreement was \$123,851 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 30,000	\$ 4,643
2012	30,000	3,430
2013	30,000	2,215
2014	33,851	806
Totals	<u>\$ 123,851</u>	<u>\$ 11,094</u>

**K. Kentucky Association of Counties - Ambulance**

On January 12, 2009, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$89,980 for an ambulance. The agreement requires variable monthly payments for 60 months to be paid in full December 20, 2013 with an interest rate of 3.99%. The principal balance of the agreement was \$74,980 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 15,000	\$ 2,957
2012	20,000	2,251
2013	20,000	1,441
2014	19,980	519
Totals	<u>\$ 74,980</u>	<u>\$ 7,168</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 4. Long-Term Debt (Continued)**

**L. Kentucky Association of Counties – Road Paving Project**

On February 16, 2010, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$475,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 180 months to be paid in full January 20, 2025 with an interest rate of 1.85%. The principal balance of the agreement a \$467,183 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 24,085	\$ 19,129
2012	25,066	18,463
2013	26,088	17,401
2014	27,151	16,289
2015	28,257	15,125
2016-2020	159,520	56,581
2021-2025	177,016	19,678
Totals	<u>\$ 467,183</u>	<u>\$ 162,666</u>

**M. Kentucky Association of Counties – Defibrillators**

On May 19, 2010, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$36,000 for defibrillators. The agreement requires variable monthly payments for 36 months to be paid in full April 20, 2013 with an interest rate of 1.85%. The principal balance of the agreement a \$35,033 as of June 30, 2010. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 11,881	\$ 1,446
2012	12,402	956
2013	10,750	388
Totals	<u>\$ 35,033</u>	<u>\$ 2,790</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 4. Long-Term Debt (Continued)**

**N. Kentucky Association of Counties – First Mortgage Revenue Bonds, Series 2010**

In June 2010, the Public Properties Corporation, a component unit of the Morgan County Fiscal Court, issued \$15,230,000 in First Mortgage Revenue Bonds, Series 2010. The proceeds from these revenue bonds were used to plan, design, and construct the Morgan County Judicial Center. These bonds are scheduled to mature in 2030 and carry an interest rate of 1.0% to 4.0%. Semiannual interest payments are required on December 1 and June 1 of each year.

The Morgan County Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to plan, design, construct, manage and maintain the Judicial Center Building. The Morgan County Public Properties Corporation expects rentals for use of the Judicial Center to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Morgan County Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds. The Administrative Office of the Courts with the execution of the lease of expressed its intention to continue to pay the full allowance payment in successive biennial budget period until June 30, 2030. However, the lease does not obligate the Administrative Office of the Courts to do so.

As of June 30, 2010, the principal balance on these bonds was \$15,230,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 600,000	\$ 474,580
2012	605,000	468,580
2013	615,000	462,530
2014	620,000	454,535
2015-2019	3,310,000	2,069,325
2020-2024	3,840,000	1,539,365
2025-2029	4,605,000	772,300
2030	1,035,000	41,400
Totals	<u>\$ 15,230,000</u>	<u>\$ 6,282,615</u>

**O. Kentucky Association of Counties – First Revenue Bond Anticipation Notes, Series 2009**

On September 12, 2009, the Morgan County Public Properties Corporation, issued \$3,000,000 in First Mortgage Revenue Bond Anticipation Notes to construct a new judicial center. The bonds required one annual principal and interest payment due on August 1 of each year. In June 2010, the Public Properties Corporation issued First Mortgage Revenue Bonds, Series 2010 that paid these notes in full. These bonds were defeased as of June 30, 2010.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 4. Long-Term Debt (Continued)**

**P. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bond	\$	\$15,230,000	\$	\$ 15,230,000	\$ 600,000
Financing Obligations	<u>4,715,204</u>	<u>511,000</u>	<u>399,554</u>	<u>4,826,650</u>	<u>470,875</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 4,715,204</u>	<u>\$ 15,741,000</u>	<u>\$ 399,554</u>	<u>\$ 20,056,650</u>	<u>\$ 1,070,875</u>

**Note 5. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

The county's contribution for FY 2008 was 186,056, FY 2009 was \$170,071, and FY 2010 was \$204,793.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 6. Deferred Compensation**

The Morgan County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

**Note 7. Insurance**

For the fiscal year ended June 30, 2010, Morgan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 8. Receivables**

**A. Ambulance Service**

The Morgan County Fiscal Court entered into a financing obligation on behalf of the Morgan County Ambulance Service For the purpose of providing funds for the financing of the purchase of three ambulances. The Morgan County Ambulance Service has agreed to pay all debt service requirements on the obligations. Future amounts due to the Morgan County Fiscal Court are:

<b>Fiscal Year Ended</b>	<b>Governmental</b>
<b>June 30</b>	<b>Activities</b>
2011	\$ 61,176
2012	50,820
2013	32,579
2014	20,499
	<u>\$ 165,074</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(Continued)**

**Note 8. Receivables (Continued)**

**B. Gateway Community Services**

The Morgan County Fiscal Court entered into a financing obligation on behalf of Gateway Transportation for the purpose of providing funds for the financing of the purchase of a vehicle. The Gateway Transportation has agreed to pay all debt service requirements on the obligations. Future amounts due to the Morgan County Fiscal Court are:

<b>Fiscal Year Ended June 30</b>	<b>Governmental Activities</b>
2011	\$ 4,363
2012	2,264
	<u>\$ 6,627</u>

**Note 9. Related Party Transactions**

The Morgan County Treasurer, Tommy Phipps, serves as treasurer for the Morgan County Ambulance Service, a sub-recipient of State Grant Funds. Also, he is an employee of the depository where the County's cash and investments are held.

**Note 10. Prior Period Adjustments**

The beginning net asset balance as of June 30, 2009 for governmental activities of Morgan County Fiscal Court have been restated. We have increased Governmental Activities, the General Fund, and the Special Projects Fund due to prior year voided checks. The following is a reconciliation of net assets as of June 30, 2009 as previously reported to the restated net assets balance for the same period.

	<b>Governmental Activities</b>
Beginning Net Assets	\$ 15,200,197
Adjustments:	
Prior year voided checks - General	112
Prior year voided checks - Special Projects	<u>500</u>
Restated beginning balance	<u>\$15,200,809</u>

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**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**



**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2010**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,197,000	\$ 1,236,486	\$ 1,201,447	\$ (35,039)
In Lieu Tax Payments	28,000	28,000	20,138	(7,862)
Excess Fees		121,310	121,310	
Licenses and Permits	2,578	2,578	2,577	(1)
Intergovernmental Revenue	323,195	369,739	357,696	(12,043)
Charges for Services		9,855	9,855	
Miscellaneous	229,513	247,981	139,993	(107,988)
Interest	1,000	3,702	2,484	(1,218)
Total Revenues	<u>1,781,286</u>	<u>2,019,651</u>	<u>1,855,500</u>	<u>(164,151)</u>
<b>EXPENDITURES</b>				
General Government	616,912	790,198	744,355	45,843
Protection to Persons and Property	125,200	122,622	119,696	2,926
General Health and Sanitation	101,900	145,475	135,695	9,780
Social Services		4,500	4,500	
Recreation and Culture	30,806	48,575	18,429	30,146
Debt Service	364,300	372,172	244,225	127,947
Capital Projects	7,500	16,000	10,003	5,997
Administration	305,677	375,299	363,807	11,492
Total Expenditures	<u>1,552,295</u>	<u>1,874,841</u>	<u>1,640,710</u>	<u>234,131</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>228,991</u>	<u>144,810</u>	<u>214,790</u>	<u>69,980</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	<u>(266,010)</u>	<u>(266,010)</u>	<u>(166,000)</u>	<u>100,010</u>
Total Other Financing Sources (Uses)	<u>(266,010)</u>	<u>(266,010)</u>	<u>(166,000)</u>	<u>100,010</u>
Net Changes in Fund Balances	<u>(37,019)</u>	<u>(121,200)</u>	<u>48,790</u>	<u>169,990</u>
Fund Balances - Beginning (Restated)	<u>37,019</u>	<u>43,634</u>	<u>43,746</u>	<u>112</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (77,566)</u>	<u>\$ 92,536</u>	<u>\$ 170,102</u>

**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts,</b>	<b>Final Budget</b>
			<b>(Budgetary</b>	<b>Positive</b>
			<b>Basis)</b>	<b>(Negative)</b>
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 70,000	\$ 70,000	\$ 66,885	\$ (3,115)
Intergovernmental Revenue	1,071,134	1,441,418	1,437,889	(3,529)
Miscellaneous	16,000	31,096	16,547	(14,549)
Interest	2,000	12,530	13,483	953
Total Revenues	1,159,134	1,555,044	1,534,804	(20,240)
<b>EXPENDITURES</b>				
Roads	569,050	681,667	614,523	67,144
Debt Service	361,126	381,038	366,803	14,235
Capital Projects		878,029	832,116	45,913
Administration	266,458	325,205	244,373	80,832
Total Expenditures	1,196,634	2,265,939	2,057,815	208,124
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	(37,500)	(710,895)	(523,011)	187,884
Financing Sources (Uses)				
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds		475,000	475,000	
Transfers From Other Funds	37,500	37,500	60,552	23,052
Total Other Financing Sources (Uses)	37,500	512,500	535,552	23,052
Net Changes in Fund Balances		(198,395)	12,541	210,936
Fund Balances - Beginning (Restated)		199,119	199,119	
Fund Balances - Ending	\$ 0	\$ 724	\$ 211,660	\$ 210,936

**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**  
**(Continued)**

	<b>JAIL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts,</b>	<b>Final Budget</b>
			<b>(Budgetary</b>	<b>Positive</b>
			<b>Basis)</b>	<b>(Negative)</b>
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 84,700	\$ 85,637	\$ 84,680	\$ (957)
Charges for Services	40,000	40,000	50,035	10,035
Miscellaneous	100	5,013	6,353	1,340
Interest	100	511	562	51
Total Revenues	<u>124,900</u>	<u>131,161</u>	<u>141,630</u>	<u>10,469</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	521,910	534,432	487,049	47,383
Administration	<u>27,100</u>	<u>32,797</u>	<u>30,557</u>	<u>2,240</u>
Total Expenditures	<u>549,010</u>	<u>567,229</u>	<u>517,606</u>	<u>49,623</u>
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	<u>(424,110)</u>	<u>(436,068)</u>	<u>(375,976)</u>	<u>60,092</u>
Financing Sources (Uses)				
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	<u>423,610</u>	<u>423,610</u>	<u>374,985</u>	<u>(48,625)</u>
Total Other Financing Sources (Uses)	<u>423,610</u>	<u>423,610</u>	<u>374,985</u>	<u>(48,625)</u>
Net Changes in Fund Balances	(500)	(12,458)	(991)	11,467
Fund Balances - Beginning (Restated)	<u>500</u>	<u>12,458</u>	<u>12,458</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,467</u>	<u>\$ 11,467</u>

**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2010**  
**(Continued)**

	<b>Special Projects Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 205,000	\$ 724,362	\$ 718,040	\$ (6,322)
Miscellaneous		16,394	16,393	(1)
Interest	-	3,369	3,740	371
Total Revenues	205,000	744,125	738,173	(5,952)
<b>EXPENDITURES</b>				
General Government	216	24,109	23,893	216
Protection to Persons and Property		165,727	150,460	15,267
General Health and Sanitation	41,725	79,608	53,599	26,009
Recreation and Culture		76,146	76,146	
Roads		226,453	226,453	
Capital Projects	173,968	298,265	294,442	3,823
Administration	9,000	25,280	9,855	15,425
Total Expenditures	224,909	895,588	834,848	60,740
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(19,909)	(151,463)	(96,675)	54,788
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds		36,000	36,000	
Total Other Financing Sources (Uses)		36,000	36,000	
Net Changes in Fund Balances	(19,909)	(115,463)	(60,675)	54,788
Fund Balances - Beginning	19,909	115,463	115,963	500
Fund Balances - Ending	\$ 0	\$ 0	\$ 55,288	\$ 55,288

**MORGAN COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2010**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**MORGAN COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2010**



**MORGAN COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2010**

	<b>LGEA Fund</b>	<b>Forestry Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$	\$ 5	\$ 5
Total Assets	<u>5</u>	<u>5</u>	<u>5</u>
<b>FUND BALANCES</b>			
Unreserved:			
Special Revenue Funds	<u>5</u>	<u>5</u>	<u>5</u>
Total Fund Balances	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2010**



**MORGAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2010**

	<b>LGEA Fund</b>	<b>Forestry Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$	\$ 2,930	\$ 2,930
Intergovernmental	269,537		269,537
Interest		37	37
Total Revenues	<u>269,537</u>	<u>2,967</u>	<u>272,504</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property		<u>3,008</u>	<u>3,008</u>
Total Expenditures		<u>3,008</u>	<u>3,008</u>
Excess (Deficiency) of Revenues			
Over Expenditures Before Other			
Financing Sources (Uses)	<u>269,537</u>	<u>(41)</u>	<u>269,496</u>
<b>Other Financing Sources (Uses)</b>			
Transfers To Other Funds	<u>(269,537)</u>		<u>(269,537)</u>
Total Other Financing Sources (Uses)	<u>(269,537)</u>		<u>(269,537)</u>
Net Change in Fund Balances		(41)	(41)
Fund Balances - Beginning		46	46
Fund Balances - Ending	<u>\$</u>	<u>\$ 5</u>	<u>\$ 5</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Conley, Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 2, 2011. Morgan County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Morgan County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morgan County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Morgan County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Morgan County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

May 2, 2011

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**MORGAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2010**

Appendix A



**CERTIFICATION OF COMPLIANCE**


**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**MORGAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2010**

The Morgan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program and Local Government Economic Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Tim Conley  
County Judge/Executive

  
\_\_\_\_\_  
Tommy Phipps  
County Treasurer

